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DEPARTMENT FOR EUR/SCE (ERIN KOTHEIMER AND YOULIANA IVANOVA)

PASS TO USAID/EE/EG FOR JAMSHID HEIDAIRAN, ROBERT ICHORD, ROBERT
ARCHER AND MARK SCHLAGENHAUF

PASS TO TREASURY FOR VIMAL ATUKORALA

E.O. 12958:N/A

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SUBJECT: Oil Discovery in Albania Premature, But Still Promising

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information. Not for Internet distribution.

12. (SBU) SUMMARY: Recent speculation that newly discovered oil and
gas deposits in Albania could lead to an energy bonanza is
premature. However, a Swiss-based oil exploration company, using
seismic data previously collected by Western oil firms and analyzed
by a U.S. energy consultant, believes there are strong indications
that significant reserves of commercially exploitable lighter grade
crude oil and natural gas exist in north-central Albania. The
company will drill an exploratory well later this summer. END
SUMMARY.

13. (SBU) On January 10, Manas Petroleum Corporation, a small
Swiss-based oil exploration and development company founded in 2004,
issued a press release highlighting a resource evaluation report by
Gustavson Associates, a Colorado-based energy consulting firm.
Albanian media misreported a key finding of the report by stating
that approximately three billion barrels in proven oil reserves had
been discovered. However, a subsequent meeting with Manas
executives established that seismic data evaluated by Gustavson
indicated only that there was the potential for undiscovered
reserves of this magnitude. Manas carefully hedged the report's
conclusion by estimating there was a probability of between 5 to 25
percent that they would find commercially exploitable oil and
associated gas deposits in any one of eight different locations in
the four concession blocks they were licensed to explore. In its
report, Gustavson also concluded that the concession contained up to
15 trillion cubic feet of natural gas. However, this calculation
rises up to 28 trillion cubic meters if only gas is discovered.
(Note: Albania currently has proven reserves of approximately 200
million barrels of oil and 815 million cubic meters of natural
gas.)

14. (SBU) Manas received a concession from the Albanian government
in August 2007 to explore for oil and gas deposits in four large
blocks comprising 780,000 acres in north-central Albania. As part
of its agreement with the GOA, Manas received 2D seismic data that
was originally acquired by Shell Oil Corporation and the French oil
firm Coparex in the mid 1990s. Shell and Coparex pulled out of
Albania in 1998 due to the upheaval that followed the collapse of
the pyramid schemes and political instability in Kosovo. (Note: The
price collapse of oil to \$10 a barrel in 1998 may also have played a
role in the companies' decision to abandon exploration efforts in
Albania's challenging mountainous terrain.)

15. (SBU) Econoff recently met with analysts from Gustavson and was
given a copy of their report by Manas executives. Gustavson's
analysis of the seismic data, including approximately 4,000

kilometers from the concession area produced in the 1990s in addition to another 700 kilometers processed by Manas, focuses on an area north of a high-sulfur, heavy oil producing area in south central Albania, the Marinza field near Fier. Recent deep oil discoveries, including a 2005 light oil discovery by Occidental Petroleum approximately 50 kilometers south of the Manas blocks, indicate that deeper carbonate reservoirs contain 30 to 35 API low sulfur oil at depths below 3,000 to 3,500 meters.

¶6. (SBU) Shell and Coparex previously discovered a deep under-thrust geologic structure within the present Manas concession that, by their calculations, has the potential to contain a combined 820 million barrels (MMBO) of recoverable oil. The Gustavson report characterizes the Manas concession as possessing "superbly defined, giant, virtually drill ready prospects." The report concludes that the previously acquired seismic results in a structurally favorable area, combined with Occidental's nearby light crude discovery, "substantially reduces the . . . blocks' exploration risk as it greatly increases the probability that (the concession) is in fact an oil-saturated formation" that could contain (1) oil with associated gas; (2) oil with gas cap, or; (3) gas with condensate.

¶7. (SBU) Manas plans to begin drilling an exploratory oil well by August at an estimated cost of \$20 - 25 million. No results are expected until the first or second quarter of next year. Manas said its most optimistic scenario, predicated on an early discovery of commercially exploitable oil and/or gas reserves, would not start production before mid 2010.

¶8. (SBU) COMMENT: Despite the promising technical report regarding possible new oil and gas deposits in Albania, there is cause for concern whether Manas has the ability to develop its concession. Manas is a new, small oil exploration firm with a thin track record. (Note: The company's only other oil exploration venture is in Kyrgystan, where the company has farmed out 70 percent of its

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interest in six licenses to another company to develop.) Manas executives told Econoff they were having difficulty finding investors to develop their Albanian concession, despite record high prices for oil on world markets. They specifically mentioned lingering suspicions regarding Albania's security situation as a detriment to attracting investment.

¶9. (SBU) COMMENT CONTINUED: Manas approached the Embassy, and took the unusual step of sharing a sensitive resource report with us, to get Embassy support to convince the U.S. Trade and Development Agency to reconsider a prior refusal to fund a feasibility study on developing Manas' concession. (Note: USTDA rarely funds feasibility studies for upstream energy development and said it was uninterested in making an exception for Manas given the availability of private investment in the current oil boom.) Funding for the type of feasibility study sought by Manas would be about \$500,000, small change in today's energy market. In the end, Manas', and Albania's, oil bonanza dreams may be frustrated by a tired guest in the country's search for outside investment -- its poor, out-dated reputation as an unsafe destination for foreign investment. END COMMENT.

WITHERS